

**FEDERAL RESERVE BANK
OF NEW YORK**

Fiscal Agent of the United States

AT.10735
October 24, 1994

**SPECIAL TREASURY NOTICE ON
ELECTRONIC TAX DEPOSIT PROCESSING**

*To the Senior Operations Officer of each Depository Institution
in the Second Federal Reserve District:*

The Department of the Treasury's Financial Management Service (FMS) and Internal Revenue Service (IRS) are leading an effort to modernize the Federal Tax Deposit (FTD) system. The Electronic Federal Tax Payment System (EFTPS) will gradually replace the current paper-based FTD system by providing an electronic system for reporting and paying Federal tax deposits. Implementation of EFTPS will be phased in over the next several years. EFTPS will provide taxpayer efficiencies in reporting tax payment information, increase the speed and efficiency of revenue collection, and expedite the availability of funds and investment decision-making information to the U.S. Government. Printed on the following pages is a special notice prepared by the Treasury Department directed to all financial institutions regarding this new program.

Of most immediate concern to you will be handling tax payments electronically for your mandated taxpayers who are unable to report tax information the day prior to the tax due date. The Federal Reserve will provide a same day Fedwire Funds Transfer capability by January 1, 1995, for large taxpayers who have received prior approval. In addition, an Electronic Tax Application using Fedline and a computer interface capability will be available on April 1, 1995.

Since the new tax collection program affects all financial institutions (Treasury Tax and Loan depositories as well as non-Treasury Tax and Loan depositories), and has implications for numerous operational areas (Automated Clearinghouse, Funds Transfer, and Treasury Tax and Loan, as well as automation areas which support Fedline and computer interface connections to the Federal Reserve), we encourage your close review of the notice and appropriate redistribution to affected operational areas within your financial institution.

If you have any immediate questions regarding the new electronic tax collection process, please contact the FMS or IRS as indicated in the special notice. A more detailed definition of payment alternatives will be provided by Reserve Banks to all financial institutions in the next few weeks.

WILLIAM J. McDONOUGH,
President.



DEPARTMENT OF THE TREASURY
FINANCIAL MANAGEMENT SERVICE
WASHINGTON, D.C. 20227

SPECIAL TREASURY NOTICE TO FINANCIAL INSTITUTIONS

FEDERAL TAX DEPOSIT PAYMENTS GO ELECTRONIC
TAXPAYERS MANDATED TO PAY BY EFT STARTING IN 1995

Background

The Department of the Treasury's Financial Management Service (FMS) and Internal Revenue Service (IRS) are leading an effort to modernize the Federal Tax Deposit (FTD) system. The Electronic Federal Tax Payment System (EFTPS) will provide an electronic system for reporting and paying Federal tax deposits. EFTPS will gradually replace the current paper-based FTD system over the next five years. EFTPS will benefit both taxpayers and the Federal Government by providing greater reporting efficiencies and expediting the availability of funds and investment decision-making information to the Treasury.

EFT Mandate

The EFTPS effort is mandated by the passage of the North American Free Trade Agreement Implementation Act (NAFTA). NAFTA prescribes the following actions:

- the Secretary of the Treasury can prescribe regulations as may be necessary for the development and implementation of an electronic funds transfer system to collect depository taxes (Treasury Temporary Regulations 8553); and,
- specifies minimum percentages of taxes that must be deposited by EFT during a phase-in period beginning in fiscal year 1994 (10/1/93 to 9/30/94).

The temporary regulations mandate that all Federal tax deposits be made by EFT when the taxpayers' annual employment tax amount exceeds the dollar threshold for a specific "determination" period. The dollar thresholds, determination periods, and effective dates are as follows:

Threshold Amount	Determination Period	Effective Date
\$ 78 million	1/1/93 - 12/31/93	January 1, 1995
\$ 47 million	1/1/93 - 12/31/93	January 1, 1996
\$ 47 million	1/1/94 - 12/31/94	January 1, 1996
\$ 50 thousand	1/1/95 - 12/31/95	January 1, 1997
\$ 50 thousand	1/1/96 - 12/31/96	January 1, 1998
\$ 20 thousand	1/1/97 - 12/31/97	January 1, 1999

Those taxpayers who are required to begin paying electronically by January 1, 1995, have been notified by the IRS.

Payment Alternatives

TAXLINK is the system currently used by the IRS to accept electronic payment of Federal tax deposits. TAXLINK is available for business taxpayers nationwide that volunteer or are mandated as of January 1995 to remit Federal tax payments electronically. On July 18, 1994, the IRS released Revenue Procedure 94-48 entitled "TAXLINK Procedures for Participating Federal Tax Deposit (FTD) Taxpayers and Financial Institutions." The purpose of this revenue procedure is to inform taxpayers and financial institutions who participate in TAXLINK of their obligations to each other and to the IRS. TAXLINK will be phased out as EFTPS is implemented beginning in mid-1995 and new revenue procedures will be issued at that time. Taxpayers enrolled in TAXLINK will be automatically transferred to EFTPS. **Taxpayers must enroll in the IRS' TAXLINK system before making tax payments.**

TAXLINK and EFTPS use the Automated Clearing House (ACH), both debit and credit options, as the primary payment mechanism. Taxpayers are required to initiate payment instructions at least one day prior to the tax due date with settlement occurring on the tax due date. The majority of taxpayers will be able to report tax information prior to the tax due date. Taxpayers have the option of using several methods for initiating tax payments: personal computer, telephone reporting, point-of-sale terminal, and ACH credit. Also, mainframe-to-mainframe transmission capabilities and Electronic Data Interchange (EDI) capabilities will be available with EFTPS. Financial institutions that currently offer an automated reporting vehicle to initiate ACH payments can continue to offer this service. However, any service which provides for the payment of Federal tax deposits must conform to all applicable legislative requirements, and funds must settle to Treasury's account on the tax due date.

Recognizing the need to provide a same day payment mechanism for mandated taxpayers unable to report tax information the day prior to the tax due date, several same day payment and reporting options will be available for authorized taxpayers: FRB Fedwire Funds Transfer, a new FRB Fedline Tax Application, and an FRB Computer Interface alternative. All same day alternatives require taxpayers to request their financial institution or third party processor to send the payment electronically on their behalf. All same day transactions must be received by the Federal Reserve Bank by 2:00 p.m. Federal Reserve head office zone time. More detailed information on these alternatives will be provided by FMS and the Federal Reserve in the next few weeks.

Investment Impact for Current Treasury Tax and Loan (TT&L) Depositories

During the transition from the paper-based FTD system to EFTPS, both note and remittance bank categories will remain in place. Until April 1, 1995, FTD funds collected electronically will be transmitted directly to Treasury's account bypassing deposit in the financial institution's TT&L account. These funds will only be available to note option depositories that accept direct investment. For note option depositories, this may result in the following:

- an increase in the dollar value of funds invested as "direct investments;"
- a decrease in the dollar value of funds invested through regular customer deposits; and,
- a potential decrease in the size and frequency of TT&L calls since more funds will be deposited directly to the Treasury's account.

Depositories should be aware of the potential impact this conversion will have on funds availability for lending programs and for satisfying reserve requirements. Effective April 1, 1995 (for same day payment alternatives) and mid-1995 (for ACH alternatives), funds collected electronically on behalf of note banks will be processed through the TT&L account. Under EFTPS, all financial institutions (TT&L depositories, as well as non-TT&L depositories) will be eligible to process electronic tax payment transactions. Treasury regulations on the investment program will be updated in 1995.

Additional Information

More information on EFTPS will be distributed to all financial institutions in the next several weeks. **Financial institutions** that would like additional information on EFTPS and TAXLINK, or have questions, please contact:

Michael Mackay (202) 874-6892
Grace Testoff (202) 874-6747
Chris Kubeluis (202) 874-6873

or write to:

Electronic Federal Tax Payment System Project
Financial Management Service
401 14th Street, SW 5th Floor
Washington, DC 20227

Please direct **business taxpayers** that desire additional information or wish to enroll in TAXLINK to write to:

IRS - Atlanta Service Center
Post Office Box 47669, Stop 295
Doraville, GA 30362

or have the **taxpayer** call the toll-free
TAXLINK HELPLINE at (800) 829-5469.